

SUTA Dumping FAQ Page

What is SUTA Dumping?

SUTA is an acronym for the State Unemployment Tax Act. SUTA Dumping is a form of tax avoidance or tax rate manipulation through which employers “dump” higher unemployment taxes by attempting to obtain a lower rate. SUTA dumping involves the manipulation of an employer’s unemployment tax rate and/or payroll reporting to owe less in unemployment taxes. Unemployment taxes are based primarily on the employer’s own experience and can vary widely.

How are UI (Unemployment Insurance) tax rates set?

An employer’s UI tax rate is based on the history of taxable wages, contributions paid into the UI Trust Fund, and benefit payments to former employees – in other words, the employer’s unemployment insurance “experience.”

What are some of the methods of SUTA Dumping?

Listed below are a few of the tax avoidance schemes used by businesses which are prohibited under the new SUTA Dumping law. Employing units should be aware that these practices constitute SUTA Dumping and that there are serious ramifications for engaging in these activities

- *Purchased Shell Transaction by Existing Business. A business with a large payroll and a high UI rate purchases a corporate shell and a small payroll is reported each year until a low or minimum UI rate is achieved. Once the low rate is achieved, the business transfers its employee/payroll to the purchased entity so that the entire payroll is taxed at the lower rate.*
- *Purchased Shell Transaction by a Person Who Is Not An Employing Unit. A person who is not an employing unit purchases a corporate shell with a low UI rate instead of forming a new business, solely or primarily for the purpose of obtaining a lower UI rate.*
- *Affiliated Shell Transaction. A new corporation is registered, and a small payroll is reported each year until a low or minimum UI rate is achieved. Once the low rate is achieved, large payroll amounts from another related corporation are transferred into this account.*
- *New Employer Rate. An existing sole proprietor or other employing unit with a high UI rate forms and registers a new company with a new employer rate which is lower, then transfers its payroll to the new company.*

Why is it important that Indiana focus on SUTA Dumping?

Under the experience rating system, employers pay unemployment taxes at rates commensurate with claims activities by their employees. Employers with high unemployment activity pay higher unemployment tax rates, and employers with lower activity pay less. Employers who engage in SUTA Dumping (or other tax manipulation schemes) to avoid paying their fair share unfairly shift their costs to other employers. SUTA dumping is harmful because it:

- *Compromises the integrity of the UI system.*

- *Results in an uneven playing field.*
- *Adversely affects tax rates for all employers.*
- *Costs the UI Trust Fund millions of dollars each year.*

How does SUTA dumping affect me?

SUTA Dumping hurts everyone – employers, employees and taxpayers make up the difference in higher taxes, lost jobs, lost profits, lower wages, and higher costs for goods and services. When employers SUTA “dump”, they move employees from their high-rate tax accounts to new lower-rated accounts. In the process, the accrued charges in the old accounts are left behind and are not picked up by the new accounts. These unpaid charges are not paid by the employer who incurred the charges, but instead are spread among all employers.

How will the Department of Workforce Development (DWD) identify employers engaging in SUTA dumping?

DWD will use sophisticated detection software and other analyses to identify potential SUTA dumpers. IDWD will vigorously and comprehensively investigate potential violators to identify those employers engaging in SUTA dumping.

How will violators of Indiana’s SUTA Dumping law be punished?

Indiana’s law provides for both civil and criminal penalties in the event of proven SUTA dumping.

Does the SUTA Dumping law address situations where one employer reports its payroll under another employer’s account?

No. This practice is commonly called “payrolling” and is already prohibited by state law since it involves an employer submitting false documents concerning who is an individual’s employer for unemployment purposes. If “payrolling” is uncovered, the penalty provision under the new SUTA law includes any violation of this chapter and thus, the penalties will apply to “payrollers” as well.

How can I report suspected SUTA Dumping?

SUTA dumping hurts all Indiana employers. To report SUTA Dumping or for additional questions, please contact:

Phone: 1-888-WORKONE (1-888-967-5663)

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